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Company Update



Eunkyung Park

Analyst

eunkyung44.park@samsung.com
822 2020 7850

Youngho Kim

Research Associate

youngho52.kim@samsung.com
822 2020 7853

Coway (021240)

MBK uncertainties cast shadow on positives

- Coway on Dec 10 announced plans to spin off its water treatment business as Coway Entech. We estimate that business will account for less than 2% of the company's 2015 consolidated sales.
- The move, while having few impacts on financial statements, should help the firm sell the unit, which would be positive to its enterprise value in the long term.
- Meanwhile, a stake sale by the largest shareholder—which has created uncertainties—has been delayed, increasing anticipation of a dividend hike. We keep the firm at BUY with a target price of KRW100,000 considering positive developments and the stock's attractive valuation.

WHAT'S THE STORY?

Water treatment business to be spun off: Coway on Dec 10 announced plans to spin off its water treatment business as Coway Entech. We estimate that business will account for less than 2% the firm's 2015 consolidated sales. The move should impact financial statements little, considering: 1) Coway will take a 100% stake in the spun-off business; and 2) the entity's assets, debt, and capital should each only equate to 1-2% of those of its parent pre-spinoff. There will be no tender to shareholders and we expect the new structure to be in place at end-Feb 2016. The move is aimed at strengthening management efficiency (by enhancing business specialties) and improving financial structure, according to the firm.

Spinoff positive: Coway has tried to sell the water treatment business multiple times since 2013, and we believe it will have an easier time doing so after the spin-off. Liquidation of the unit should help the company's enterprise value as that unit: 1) has few synergies with the company's core B2C rental care service or cosmetic businesses; and 2) generates little in the way of earnings.

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AT A GLANCE

SELL HOLD **BUY**

Target price KRW100,000 (19.6%)

Current price KRW83,600

Market cap KRW6.4t/USD5.4b
Shares (float) 77,124,796 (65.4%)
52-week high/low KRW105,500/KRW78,900
Avg daily trading value (60-day) KRW15.6b/USD13.2m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Coway (%)	-8.5	-8.3	-2.8
Vs Kospi (%pts)	-6.4	-3.7	-3.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	100,000	100,000	0.0%
2015E EPS	4,285	4,285	0.0%
2016E EPS	4,522	4,522	0.0%

SAMSUNG vs THE STREET

No of estimates	10
Target price	121,200
Recommendation	4.0

BUY★★★: 5/ BUY: 4/ HOLD: 3/ SELL: 2/ SELL★★★: 1

SUMMARY FINANCIAL DATA

	2014	2015E	2016E	2017E
Revenue (KRWb)	2,160	2,283	2,408	2,503
Net profit (adj) (KRWb)	250	332	350	372
EPS (adj) (KRW)	3,223	4,285	4,522	4,800
EPS (adj) growth (% y-y)	0.0	32.9	5.5	6.2
EBITDA margin (%)	26.8	29.6	29.9	30.5
ROE (%)	25.2	29.0	26.3	24.8
P/E (adj) (x)	25.9	19.5	18.5	17.4
P/B (x)	6.5	5.3	4.7	4.2
EV/EBITDA (x)	11.0	9.4	8.7	8.0
Dividend yield (%)	2.0	3.0	3.2	3.6

Source: Company data, Samsung Securities estimates

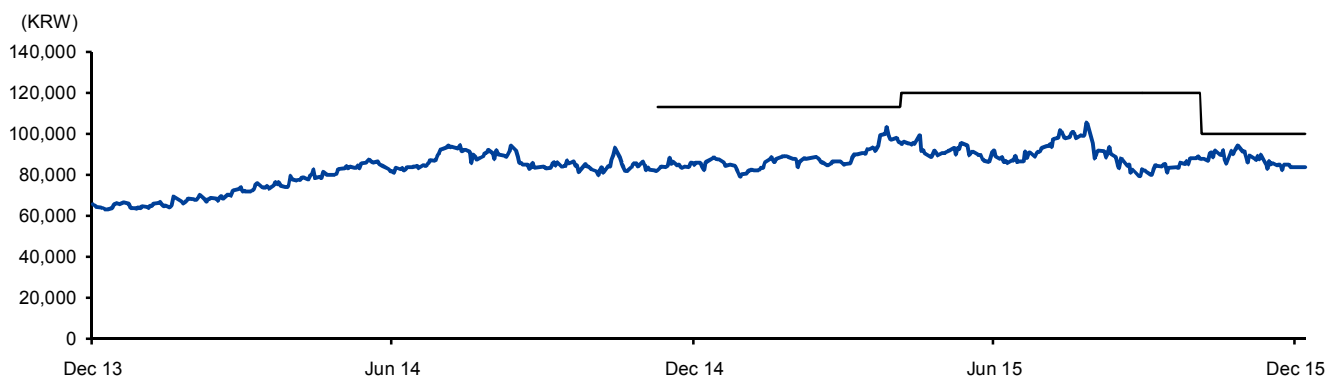
Expectations for 4Q earnings, dividends positive: Coway's earnings gained momentum in 3Q for the first time in a year, with sales and operating profit rising 10% and 30%, respectively. We expect the company to post 4Q sales and operating profit growth of a respective 10% and 35% y-y, maintaining momentum. Meanwhile, a stake sale by largest shareholder MBK Partners is unlikely to happen within the next three months, so anticipation has risen for a dividend hike this year. We expect a 2015 dividend payout ratio of 55% for a DPS of KRW2,500 (or 3% yield at current prices), but if the firm applies the same ratio as it did last year, DPS should be KRW2,700 for a yield of 3.2%. Last year's payout ratio was 60% and DPS was KRW2,000.

Maintain BUY and target: We calculate Coway's fair value at KRW127,000 based on a DCF valuation (which assumes a WACC of 5.2% and a growth rate of 0.5%), which equates to 28x 2016 P/E. However, a delayed stake sale by the largest shareholder has increased uncertainty over the company's business strategy and earnings. Reflecting this, we apply a 20% discount to our fair value estimate to arrive at our target price of KRW100,000 (22x 2016 P/E). Despite anticipation of more positives, we expect shares to be volatile until end-year on stake-sale related news. We recommend monitoring shares and buying on weakness.

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Target price changes in past two years



Rating changes in past two years

Date	2013/12/11	2014/11/19	2015/4/16	10/15
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	46,000	113,000	120,000	100,000

Samsung Securities uses the following investment ratings.

Company

BUY★★★	Expected to increase in value by 30% or more within 12 months and is highly attractive within sector
BUY	Expected to increase in value by 10% or more within 12 months
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months
SELL★★★	Expected to decrease in value by 30% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Sep 30, 2015

BUY (71.8%) | HOLD (28.2%) | SELL (0%)

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